Testimony of Carlos Jackson, Executive Director, Los Angeles County Community Development Commission and Housing Authority of the County of Los Angeles, before the House Financial Services Subcommittee on Housing and Community Opportunity

July 1, 2003

Good morning, Chairman Nay and Ranking Member Waters.

I testified before the Committee yesterday on the Community Development Block Grant program, which is administered by the Community Development Commission. I want to thank you for the opportunity to testify before you today to discuss the Section 8 Housing Choice Voucher program.

My testimony will address: the proposed Housing Assistance for Needy Families (HANF) legislation to block-grant the Section 8 program to states; recent legislative proposals to cap and restrict Section 8 administrative fees; our successes in administering the program in Los Angeles County; and, some recommendations for improving program flexibility and reducing administrative costs.

The Housing Authority of the County of Los Angeles (HACoLA) is the fifth largest local administrator of Section 8 rental assistance in the country. On behalf of the County of Los Angeles, HACoLA:

- Administers over 20,000 Section 8 vouchers;
- Manages vouchers on behalf of the unincorporated areas of Los Angeles and 68 of the County's 88 cities;
- Works in partnership with over 10,000 property owners; and

- In addition, manages over 3,600 units of conventional and non-conventional public housing, serving approximately 6,000 residents at 73 housing sites throughout Los Angeles County.

As administrator of the County's Section 8 program, I am deeply concerned with the Housing Assistance to Needy Families (HANF) proposal to block-grant the Section 8 Housing Choice Voucher program to states. I have learned from my experience as an administrator of housing and community development programs that decisions impacting housing and community development are made and implemented at the local level, not by faraway state governments. The Los Angeles County Board of Supervisors, whose members are also the Governing Body of HACoLA, have recently joined other elected officials and associations in opposing the HANF block grant proposal. There has yet to be evidence presented that local Section 8 administrators are incapable of administering the program as evidenced by a 95 percent national lease-up rate. Nor has there been evidence presented that states are capable of doing a better job as currently 40 percent of state administered housing authorities are rated as 'troubled' by HUD.

In Southern California, we are faced with a real estate market that is distinguished by high rents and low vacancy rates. The average monthly rent for a two-bedroom unit is $1,300, the vacancy rate is a low four percent, and only 36 percent of families in Los Angeles County are able to afford the median price of a home which has increased to $313,000. However, we have been able to achieve a 100 percent lease-up rate given these extraneous factors. We are serving Los Angeles' neediest residents with 73 percent of our Section 8 participants earning at or below 30 percent of the Area Median Income (AMI) and 24 percent earning between 30 to 50 percent of AMI.

Housing Assistance for Needy Families (HANF)

No Need to Restructure

As of today, HUD has not been able to fully explain why they support block-granting the Section 8 program to states, and they have determined that states have the capacity to administer the program. Also, HUD has not provided information on what the real start-up and on-going costs would be. Therefore, one can only conclude that the intent of HANF is to either strategically gut the program or to relieve the federal government of its role in providing affordable housing.

I am perplexed by the proposal to block-grant the Section 8 program to states when the program is considered by many to be highly successful in serving our neediest families, including the elderly and disabled. Nationally, utilization rates have increased six percent over the past year, from 89 percent to now over 95 percent. Only eight percent of local PHAs are rated as 'troubled', the rest being rated as 'standard' or 'high' under HUD's Section Eight Management Assessment Program (SEMAP) rating system. It doesn't make sense to completely revamp the program when only eight percent of local public housing authorities are not performing up to standards. As a result, the many well performing local public housing authorities would be penalized because of the few that are below standard.

Program Should Be Locally Administered

HANF would turn over the administration of the Section 8 program from local governments to states, resulting in severe repercussions for Los Angeles County and its low-income families. In Los Angeles County, the Section 8 program is by far the largest provider of affordable housing for low-income families. Together, the County and City of Los Angeles' Section 8 programs represent over 22 percent of the State of California's 301,398 vouchers. Collectively, California's public housing authorities administer 14.4 percent of the nation's vouchers.

Section 8 is a market driven program that requires in-depth knowledge of local housing conditions. In California, we have eight major housing markets with populations of at least 350,000 people. Local agencies are in the best position to oversee the Section 8 program because they understand their residents' housing needs and the local rental market, they are familiar with their community and neighborhoods, and they have long-standing partnerships with local property owners. To see the strength of local administration, one only has to look at the significant strides that cities and counties throughout California have made in fully utilizing their vouchers by working with their local communities. In Los Angeles, the County and City Housing Authorities' lease-up rates of over 99 percent demonstrate our successes in administering the program.

During the 1994 Northridge earthquake that devastated the Los Angeles region, it was local governments that managed the crisis of housing those displaced by the earthquake. It was the Federal government, and not the State, that provided the financial resources to local governments to respond accordingly and in a timely manner. Housing is a local issue as local governments and entities are knowledgeable of their areas' housing market conditions and the needs of their residents. I strongly believe that state governments cannot gain the knowledge and experience to address local housing needs.

State Administration: Unnecessary Layer of Government

In a time of streamlining, the block-grant proposal would add an additional layer of bureaucracy by transferring the Section 8 program to states. There has been no evidence presented to suggest that state administration would lead to a more efficient and effective program. In fact, it is interesting to note that 40 percent of state administered housing authorities, are rated as 'troubled' by HUD's own scoring system (SEMAP). Conversely, only eight percent of locally administered Section 8 programs are similarly rated. In California, the HANF proposal would transfer the Section 8 program from housing authorities such as ours that administer over 20,000 vouchers and maintain a 100 percent lease-up rate to California's Housing Authority, which administers only 723 vouchers, and are only at an 82 percent lease-up rate. This just doesn't make sense. Our question continues to go unanswered by HUD: Why punish the well performing agencies?

In California, the proposal would transfer the program to a State facing a $38 billion deficit, the largest deficit currently facing any state in the nation. The proposal would transfer money from local housing agencies that are vested in these programs to a State facing a major budget crisis. Also, property owners that have confidence in and familiarity with these local agencies would be forced to work with a faraway state agency. Additionally, during these uncertain times, it is not known if housing will be a priority for the State. This is evidenced by Governor Gray Davis' recent proposal to zero out the budgets of two housing programs and backfill them with $39 million dollars from monies approved by the voters in November 2002 to create additional housing opportunities in the State. This is on top of the $35 million in cuts to housing programs the Governor made last fiscal year.

Furthermore, it is unlikely that states that are strapped and overburdened would overcome administrative, operational, and automation hurdles of a program that has been primarily locally administered for nearly 30 years. It has been our experience that it takes several years to accomplish the administrative and technological goals set forth by HUD. This is confirmed by the fact that HUD, because of technological difficulties, has not been able to extract the necessary data from their Public Indian Housing Information Center (PIC) for two of SEMAP's 14 rating areas. It is unrealistic to think that within one-year, if ever, states can put together the administrative structure to run a Section 8 program effectively. We are aware that in the best of times this would be a major challenge. So, in the worst of times, it is the families that will suffer.

Lastly, there are no assurances to prevent the raiding of Section 8 program funds by states to offset other housing needs. In addition, since the first introduction of the HANF proposal over four months ago, only a few states have indicated a willingness to undertake this new program. In contrast, local governments have come out strongly opposing the proposal on the grounds that it will jeopardize services.

Funding Uncertainties Under HANF

The current Section 8 program is funded based on actual housing costs while the HANF proposal uses housing costs as only one of the several measures for distributing funds to states. In the last five years, rents have increased nationally, on average, by 25 percent, while the Consumer Price Index has risen by only 12 percent. A recent report by the National Association of Housing and Redevelopment Officials (NAHRO) suggests that if the differences in these two figures hold true for the future, this State would experience, over a five-year period of time, a 29 percent shortfall in funding for the Section 8 program amounting to $737 million. The State would have to contribute $737 million of its own funds to sustain the current level of service under the program.

HANF proposes to fund states at a projected level of 96 percent of the current budgeted voucher funding level, resulting in over 80,000 low-income families nationally that would not be able to receive assistance because of the lack of full funding. HACoLA's waiting list for the Section 8 program currently has over 120,000 families on it and our waiting list for our Public Housing program has nearly 72,000 families on it, including 15,000 from our jurisdiction and 57,000 from outside our jurisdiction. Under HANF, it seems less likely that families on our Section 8 waiting list would be served. Additionally, if the State of California were to receive 96 percent of voucher funding, there are no provisions in the proposal to ensure that Los Angeles County will receive funding to support the families currently being served under our program as we are at 100 percent lease-up. If the State of California only provided Los Angeles County and City Housing Authorities with funding for 96 percent of our allocation, approximately 2,600 families currently being served under our programs would lose their housing assistance.

HANF Would Divert Assistance From the Neediest

Under the HANF proposal, states would be asked to make every effort to provide assistance to the same number of families currently receiving assistance. With rising rental costs that outpace inflation and funding capped, states would have to operate within these constraints by either:

- Increasing a family's portion of rent to cover lower housing assistance payments;
- Serving less of our neediest families to stay within the funding cap;
- Lowering the amount of rent that a voucher can cover, limiting access to available units and geographic areas where vouchers can be used; or
- Subsidizing the program with state funds.

PHAs are Accountable

Public housing authorities are accountable for their activities. PHAs are scored every year on the administration of their Section 8 program under the SEMAP rating system. Agencies that are rated as 'troubled' by the SEMAP system have corrective action plans and HUD currently has the authority to transfer program administration for 'troubled' housing agencies to another administering agency. Additionally, HUD has the power to reallocate unused vouchers from agencies that have not been using them to agencies that have been successful in using them.

Public housing authorities are not only accountable to HUD, but are also accountable to a local Governing Board and numerous resident and community advisory boards. In Los Angeles County, the members of the Governing Board are also the members of the Los Angeles County Board of Supervisors. In addition to the Governing Board, HACoLA also has an advisory Housing Commission, comprised of private citizens appointed by the Board of Supervisors, Public Housing residents, and Section 8 participants. In addition, we have Resident Advisory Boards and Resident Councils that allow residents and participants the opportunity to comment on our Section 8 and Public Housing programs.

Administrative Fee Proposals

Section 8 Administrative Fee Cap

There was language introduced last year in the VA/HUD/IA Appropriations Bill, H.R. 5605, that would have limited the Section 8 administrative fees to no more than 10 percent of the rental subsidy paid. Fortunately, this section of the bill did not pass, however the HANF proposal also caps administrative fees at 10 percent. HUD's current formula for calculating Section 8 administrative fees results in HACoLA receiving approximately 12.5 percent of the rental subsidy paid to support current program operations. Limiting the administrative fees to no more than 10 percent would result in an approximate 18 percent reduction in current level funding to support our program operations. Administrative fees are used not only to support the costs of administering the program, but also to: provide housing counseling services to assist voucher holders in successfully leasing up; offer family self-sufficiency services; conduct fraud investigations; and have helped support the cost of administering the Shelter Plus Care and HOPWA programs. Without these administrative fees, we would not have been able to conduct the lease-up campaign that resulted in a 12 percent increase in our lease-up rates.

The HANF proposal would not only reduce this amount to 10 percent of the subsidy amount but that would be the total amount allowed for both states and local administrators. NAHRO recently conducted a study on the 10 percent administrative fee cap. The results of the study reveal that the HANF proposal will result in an unfunded mandate on states. NAHRO estimates that HANF will reduce fees by an average of 13 percent across the country compared with current fees. As a result, states may have to either expend resources from other programs to sustain an adequate level of service or they may have to reduce the number of low-income families that are served.

Some changes that HUD can implement to help reduce the cost of administering the Section 8 program are:

- Eliminating unfunded mandates such as criminal background checks;
- Simplifying restrictive regulations such as the 50058 form that are not necessary to the core operation of the program;
- Changing all eligibility recertifications and housing quality inspections to once every two years instead of annually;
- Changing third party verification requirements to periodic sampling;
- Mandating sharing of data between agencies for income and background screening; and
- Simplifying regulations governing eligibility calculations.

Restricting Use of Section 8 Administrative Fees

There was also a proposal to include language in the FY 2003 Omnibus Bill (H.J. Res 2) that would place restrictions on the use of Section 8 administrative fees to only be used for activities related to the Section 8 program. As of today, we are uncertain if this proposal was included in the Omnibus Bill as HUD has still not issued a notice on bill. We are extremely concerned with this restriction since these funds are currently used to support operating costs in our public housing program. As you know, operating funds for public housing have been drastically reduced in recent years. For example, in FY 2002, the Public Housing Drug Elimination Program (PHDEP) was eliminated which allocated funding for public housing authorities to provide services to residents with the ultimate goal of reducing drug-related crime in and around public housing developments. With the PHDEP funding, we were able to reduce crime in our public housing developments by 68 percent over a 10-year period.

Additionally, HUD is only funding public housing authorities at approximately 90 percent of their eligible subsidy requirements. As such, Section 8 funds are needed to help operate our Public Housing developments. Lastly, Section 8 administrative fees are needed to bear the costs of unfunded mandates such as law enforcement contracts and the Family Self-Sufficiency program that serves both Section 8 and Public Housing residents.

An Example of Success

Our high lease-up rate of 100 percent demonstrates our ability to effectively administer the Section 8 program despite Los Angeles' extremely high rent market. We were able to increase our rate by initiating a lease-up campaign beginning in May 2000 that involved providing extensive outreach to property owners and streamlining our administrative processes. We conducted meetings and focus groups with the property owners. It was time for us to listen! The property owners spoke to us frankly about their experience with the Section 8 program and provided suggestions for improvements. For example, during these meetings, it became apparent to us that units remaining vacant over a period of time was detrimental to property owners. As a result, we streamlined our processes to shorten the time between the property owners agreement to participate in the Section 8 program and the signing of the contract between the parties. We also recognized that streamlining went both ways. We realized that a very small group of property owners were also responsible for taking too much time in signing the contracts. We were able to recognize this and improve this deficiency.

Between May 2000 and July 2001, we were able to increase our lease-up rate from 84 percent to 96 percent. We were able to do this because of the aforementioned lease-up efforts and also an increase in the Fair Market Rents (FMR) during that time. Still, however, roughly 56 percent of those families that were issued a voucher were unable to find housing because of the high rent market in Los Angeles.

Need for Improvements

The Section 8 program, like all programs, can be improved to better serve low-income families by reducing administrative burdens and providing incentives to increase participation by property owners. It has been our experience that some of the most significant barriers include:

- Lack of affordable housing;
- Lack of additional vouchers to address the need for the program as evidenced by the 120,000 families on our Section 8 waiting list;
- Lack of funds for security deposits and other move-in costs incurred by the families;
- Fair Market Rents (FMR) being set at the 40^{th} percentile rather than the median percentile of 50^{th}; and
- FMRs that don't accurately reflect market rental costs for all areas.

The following changes can be implemented now to improve the Section 8 program. They include, but are not limited to:

- Providing additional flexibility to public housing authorities to set payment standards up to 120 percent without HUD approval;
- Increasing the FMR from the 40^{th} to 50^{th} percentile;
- Removing the 40 percent cap on the tenant's portion of their rent for new families and new moves;
- Allowing recertifications for eligibility and housing quality inspections to be done every two years rather than every year; and
- Simplifying the 50058 form and other reporting requirements.

Conclusion

HUD has the power to correct some of the inefficiencies of the Section 8 program without having to revamp a nationally successful program. HUD can give local public housing authorities the same flexibility they're willing to give the states. The aforementioned modifications to the program would effectively counter inherent inefficiencies and allow public housing authorities in California and across the country the flexibility to more quickly address local needs.